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Summary

¶1. (SBU) Tunisian opinions are plentiful and varied on the future of Maghreb integration. During a recent round table organized by Post and in the course of speaking with private sector individuals, it was apparent that Tunisians recognize the benefits of integration, but are cynical about its real possibilities. Tunisia already has a plethora of trade agreements with its neighbors, but trade volume and value are low. According to many experts, non-tariff barriers (NTBs) are to blame. Non-convertibility of currencies, poor investment climates, and unregulated economic activity are preventing further economic integration. Many intellectuals also cited the "irrationality" of leaders in Algeria and Libya, as well as the conflict between Algeria and Morocco, as key impediments. There is no clear consensus on what role the U.S. should play to help bring about integration. End Summary.

What's at Stake with Regional Integration

¶2. (SBU) The stakes for regional integration are high. According to Professor Safouane Ben Aissa, a Tunisian expert in Maghreb integration, not integrating the region's economies is costing the region 1.5 percent of real GDP. Although the models used by Ben Aissa and other academic institutions looking at the issue, such as the Peterson Institute for International Economics, produce different estimates for forecasted real GDP growth with total economic integration, experts agree integration would result in at least some growth. Ben Aissa's estimate for Tunisia, for example, is 0.79 percent of GDP. The Peterson Institute estimates nearly 8 percent growth for Tunisia in the most ambitious scenario. Regional Maghreb integration would result in larger markets, more inward FDI, and a stronger bargaining position vis-a-vis external actors. The idea of Maghreb integration is not new, and many political and economic challenges remain.

How can the Maghreb get there?

¶3. (C) On July 24, Post held a round table to discuss the political and economic challenges facing Maghreb integration.

In attendance were academics, economists, and opposition party members. One of the main topics of debate was whether political integration was a prerequisite for economic integration. Some members, like Law Professor Ahmed Driss, were adamant that without a political framework, economic integration was not possible. He cited a recent poll, noting 67 percent of young people were disillusioned with the idea of integration. Many in the group agreed that the conversation has been going on for nearly thirty years, with little tangible progress. Ezzedine Saidane, a financial consultant, countered that economic integration was possible without a political framework, and that integration on some level was already happening. Former Tunisian Ambassador Ahmed Ounaies said that great ideas like the Eizenstat Initiative were stalled because they relied on political agreement between the heads of state to proceed.

How integrated is Tunisia with its neighbors?

¶4. (SBU) On the economic front, many agreements are already in place linking Maghreb economies. Tunisia has trade agreements with Morocco, Algeria and Libya. It is a member of the Agadir trade agreement of 2004, which links Tunisia, Morocco, Egypt and Jordan. The Greater Arab Free Trade Area (GAFTA) also includes Libya, Morocco and Tunisia. Sector agreements are also in place: Tunisia and Morocco concluded an Open Skies agreement and a maritime transport agreement in
¶2007. Tunisia and Algeria signed energy agreements in July
¶2009. As part of the Arab Maghreb Union (AMU) treaty (signed in 1989), member nations created the Maghreb Bank for Investment and Foreign Trade, designed to spearhead financial sector integration. (Note: The Maghreb Bank has not taken off. The shareholders of the bank are the five member nations' central banks, and there has been little movement on the institution since the 2006 approval of the draft statute by the Maghreb Ministerial Commission for Finance of the AMU.)

¶5. (SBU) Of its Maghreb neighbors, Tunisia's largest trading partner is Libya (4.5 percent of Tunisian exports were purchased by Libya in 2008, and Libyan products accounted for 4.3 percent of imports. These figures exclude significant smuggling of goods from Libya into Tunisia.) Conversely, 2.1 percent of Tunisian exports were destined for Algeria that same year, versus 1.2 percent to Morocco. Only 2.9 percent of Tunisia's imports were from Algeria and 0.4 percent from Morocco. On the whole, the volume of trade has increased in the last five years. Tunisian imports from Algeria, for example, have risen from 0.6 percent in 2004 to 2.9 percent in 2008, but still remain low as part of the overall export and import baskets. Ben Aissa said the trade agreement between Algeria and Tunisia had increased the volume of trade 13-14 percent since it was ratified in March 2009, but the value has hardly changed because the increase has been in low-value goods. Moroccan exports to Tunisia have actually decreased (from 0.5 percent in 2004 to 0.4 percent in 2008.)

¶6. (SBU) Tourism is perhaps the one area where the economies of Tunisia, Libya and Algeria are quite integrated. According to a press report, 37 percent of Tunisia's visitors in the last six months were from Algeria and Libya. The Ministry of Tourism recently acknowledged 1.2 million tourists came from Algeria this summer, and noted Algerian tourists, on average, spend nearly US$350 million annually. Libyans routinely come to Tunisia for tourism and medical care (an average of 1.5 million Libyan tourists each year.) According to the GOT, 72 percent of foreign patients are from Libya. Tourism is one of Tunisia's most important sectors, and in the wake of waning demand from Europe, tourists from the Maghreb may salvage the sector this year. The latest GOT figures even indicate a 4.6 percent increase in tourism revenues for the first term of 2009. The World Tourism Organization, a UN agency, estimated a one percent increase in tourist arrivals so far this year.

The Real Impediments to Integration

¶7. (SBU) Political differences aside, non-tariff barriers are in many ways responsible for the lack of regional integration. Many of the Maghreb trade agreements are not comprehensive (GAFTA excludes services and investments, for example, and the Algeria-Tunisia agreement excludes agricultural products), which could account for some lack of integration. However, challenges in business climates in Libya and Algeria, non-convertibility of currency between Maghreb countries, and lack of transportation infrastructure are even bigger concerns. The closed border between Morocco and Algeria is the most obvious example of a non-tariff political barrier, but as Ben Aissa notes, economic distortions in the Algerian economy also discourage trade. The two countries represent 77 percent of the region's population and 66 percent of its GDP, which makes integration between Algeria and Morocco, according to Ben Aissa, essential for the region.

¶8. (C) At the round table, Ouanies blamed "irrational" governments for meddling with economic decisions. He blamed Colonel Qadhafi for quickly undoing any progress by making fickle decisions based on meaningless events such as the results of a soccer game. In June 2009, Libya decided to impose a US$200 tax on Algerian and Tunisian vehicles entering the country (Ref A). According to a press report, the GOT negotiated the repeal of the tax, but Algerians are still subject to it. In 2008, this same tax was reportedly 1000 Euros, according to a press article. Algerian and Libyan tourists convert their currencies into Euros or USD to come to Tunisia, and until recently, tourists coming from Algeria to Tunisia had to get off their charter buses at the border and get on a Tunisian charter bus (this was reportedly an Algerian regulation).

¶9. (SBU) Smuggling and non-regulated economic activity continue to be thorns in bilateral economic relations. Smuggled gasoline is a problem for oil companies operating in Tunisia. The General Manager of Tunisia's Total branch, the French oil company, said sales had taken a hit last year due to illegal smuggling along the Libyan and Algerian borders. Since the currencies of Maghreb countries are not convertible, there is a thriving parallel exchange market. Tunisia and Libya agreed to allow exchange convertibility of their two currencies, but implementation of this agreement has been a problem. Tunisia and Morocco recently signed an agreement to allow convertibility, but as of today it is only applicable for bank-to-bank transactions and not for the general public.

Opinions from the Private Sector

¶10. (SBU) Over the last months, EconOff and CommercialOff have been canvassing members of the private sector for on-the-ground opinions about Maghreb integration. On the whole, businessmen are optimistic. Ali Belakhoua, a Tunisian-American businessman who owns an electronic components factory, recently attended a business summit in Algeria which brought together people from Libya, Algeria, Morocco and Tunisia. He lamented that English was not the working language, because Libyans were excluded from much of the conversation, which took place in French. He noted that the mood was lively, with most attendees eager to network and create business opportunities. However, without a political framework for integration any real progress would be difficult.

¶11. (C) When asked why deep economic integration was not yet taking place in the Maghreb, many businesspeople point to the conflict between Morocco and Algeria. Saidane, however, said it was "all too easy to blame Algeria for all our problems," and that businesses needed to find ways to work around political constraints. He added that in Algeria and Libya, there was a large demand for skilled labor which Tunisia could fill. Haykel Belhassine, Country Manager for Citibank

in Tunisia, said that people were reticent to invest in Algeria despite the GOT's push to invest in other Maghreb countries because the business climate was not favorable to investments. Saidane also acknowledged that the lack of integration was costing the Maghreb countries important investment opportunities from Europe, the U.S. and Japan.

What Role Can the United States Play?

¶12. (C) Opinions are split as to whether the U.S. could or should play a role in integration, and whether any intervention would even be effective. Ben Aissa had tangible ideas for U.S. involvement: providing capital to the Maghreb Bank and lending political support to the Arab Maghreb Union. Adding capital from the U.S. and other regional actors, Ben Aissa said, would give the Bank the legitimacy it needs to really tackle the issues impeding further integration. The Arab Maghreb Union, which is considered by many as a weak and politicized organization, could be revived with U.S. participation, according to Ben Aissa. Others present at the July 24 round table disagreed, saying it was not the job of an outside actor, whether Europe or the U.S. to "fix our problems." Privately, business representatives said the U.S. should continue to urge countries to improve their business climate, to make it easier for the private sector to operate.

Comment

¶13. (C) In many ways, the conversations intellectuals, economists, diplomats and businessmen are having about Maghreb integration are the same as those held two decades ago. Blaming the "irrationality" of Algeria and Libya or the Western Sahara issue for the lack of integration is common. Disillusionment with the process, especially among young people, will be a big hurdle for the years ahead. That said, Tunisians have not yet given up on integration - nearly all the people Post spoke to still have hope. However, cynicism is high, which has led the Tunisian government and private sector to look northward for investment and integration instead. For any new push on integration to be successful, some real deliverables will have to come early in the process. End comment.
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